

**STATEMENT OF THE HONORABLE JESSE BROWN**

**SECRETARY FOR VETERANS AFFAIRS**

**FOR PRESENTATION BEFORE THE  
HOUSE COMMITTEE ON VETERANS' AFFAIRS**

**FEBRUARY 13, 1997**

Mr. Chairman, members of the committee, I am pleased to present the President's 1998 budget proposal for the Department of Veterans Affairs (VA). We are requesting \$41.1 billion in new budget authority and 210,625 FTE for veterans' programs. This budget will allow VA to continue providing quality care and services to our veterans and their families.

The President's proposal is innovative and historic. It builds upon the significant progress we have already made in preparing VA to operate within current and future fiscal realities. Our request strikes the appropriate balance between upholding our commitment to veterans and supporting deficit reduction. It also includes new management and revenue tools to keep our system viable and promote overall savings to the Federal Government. The 1998 budget for Medical Care is the first installment of a five year strategy to improve the delivery of healthcare to veterans. I wish to highlight several key elements of our budget request.

**A New Course for Veterans' Healthcare**

VA has reinvented its approach to healthcare delivery and implemented a new national network management structure. We are moving toward becoming a truly national system, with coordinated networks of patient-centered healthcare services. Beginning in FY 1997, we propose to allocate medical care funds on a capitation-based model called the Veterans Equitable Resource Allocation (VERA) system. This resource allocation system complies with the Congressional mandate contained in P.L. 104-204. The recently enacted Eligibility Reform Act (P.L. 104-262) offers VA a great new opportunity to provide improved healthcare services to current customers, attract new revenue-generating customers, and provide value to taxpayers.

VA will expand and improve healthcare delivery with a 2.8 percent increase in funding but without any increase in appropriated funds above the current 1997 enacted level for Medical Care. This "baseline" strategy is tied directly to our proposed legislation to retain all third party medical collections and user fees.

The estimated \$468 million in net collections will provide the funds necessary for us to cover the costs of inflation and continue to improve services.

In future years, VA's goal is also to collect Medicare reimbursements for higher income, non-service-connected veterans who choose VA healthcare. This assumes authorization of the Medicare subvention demonstration, successful pilot testing, and authorization to expand nationwide. To keep our system vibrant and in step with modern medicine, we will reach out with a high quality product and expanding our customer base.

With these incentives come new challenges. Our budget request commits us to reduce the per patient cost for healthcare by 30 percent, increase the number of veterans served by 20 percent, and fund 10 percent of the VA healthcare budget from non-appropriated revenues by the year 2002.

### **Improving Benefits Delivery**

We continue to process compensation and pension claims in a more timely manner. The Veterans Benefits Administration (VBA) is on schedule to process original compensation claims in 1998 in 106 days, a reduction of 38 days from 1996 actual and an improvement of 107 days from a high of 213 days in 1994. Progress also continues in reducing the total pending caseload as well. By 1998, the total pending caseload will be reduced by nearly 38 percent from its highest point of 570,000 in 1994 to 356,000 in 1998.

In addition to the Compensation & Pension (C&P) medical exam pilot program funded from the C&P appropriation, our budget also proposes that exams be funded directly from VBA resources with a transfer of \$68 million from the Veterans Health Administration (VHA) to VBA for this purpose. We propose that VBA reimburse VHA for the cost of medical exams conducted in conjunction with a veteran's claim for benefits. Establishing a customer/provider relationship should improve the quality and timeliness of medical exams and, in turn, enhance the quality of VBA claims adjudication. Claims remanded to VBA for deficient medical exams should decline. This budget reflects the continuation of VBA's Business Process Reengineering (BPR) for the C&P claims process which will significantly improve service to veterans. When completed in 2002, this reengineered process will allow most claims to be processed in less than 60 days and will reduce C&P costs by over 20 percent in the same time frame.

### **Ensuring a Lasting Tribute for Veterans and Family Members**

We project that annual veteran deaths will increase 13 percent, from 525,000 in 1996 to 592,000 in 2002. Based on the 1990 census, annual veteran deaths are expected to peak at 620,000 in 2008. As deaths increase, we anticipate a corresponding increase in the number of annual interments performed at our national cemeteries from 71,786 in 1996 to 92,300 in 2002. During the same time period, the total number of graves maintained will increase from 2.1 million to 2.5 million.

Our request for the National Cemetery System begins to position VA to meet future requirements. The budget includes funding and personnel to completely open a new National cemetery at Tahoma, WA, begin the activation process for three additional new national cemeteries, and address workload growth at existing cemeteries. Infrastructure needs will also be addressed.

The budget includes a change in Administration policy for the National Cemetery System. The Federal Government will focus on providing additional incentives for states to participate in the veterans cemetery grant program in order to improve future access to veterans cemeteries. We propose to increase the maximum Federal share of the costs of construction from 50 percent to 100 percent. In addition, the entire cost of initial equipment for cemetery operations could be funded from Federal resources.

### **Administrative Services - Maintain High Quality at Reduced Costs**

Reinvention efforts continue under VA's Franchise Fund. In 1998, we anticipate gross billings of nearly \$82 million compared to \$55 million in 1997. In addition to the six Service Activities already in the fund, we have added the remaining portion of the Austin Finance Center's fiscal operation.

Our budget also reflects the phased expansion of the Shared Service Center (SSC). The SSC is an integrated facility in which VA employees and managers can obtain fast, accurate responses to their payroll and human resources questions. In FY 1998, the SSC will provide services to additional VA facilities and locations. The SSC will centralize payroll processing and personnel information in a cost-competitive way and will reduce the Department's overhead.

### **Performance Based Budgeting**

The Government Performance and Results Act of 1993 (GPRA) is the primary vehicle through which we are developing more complete and refined strategic goals and performance information. This will allow us to better determine how

well VA programs are meeting their intended objectives. We are continuing to move our focus away from program inputs and toward program results. Our strategic management process has been reinvigorated to bring about a stronger "One VA" focus that emphasizes our commitment to becoming a world-class service delivery organization.

We have blended the performance plan required by GPRA into our budget submission so that program goals, objectives, and performance information are presented in an integrated fashion with our request for resources. This provides much better information on what we are trying to achieve, how we will measure our success, and what resources we believe are needed to accomplish our stated goals and objectives.

Along with our enhanced planning efforts, we have strengthened our focus on accountability for results. Our Accountability Report documents the Department's financial and programmatic performance and serves to meet the performance reporting requirements of GPRA. We continue to move closer to our ultimate objective of having a single set of performance measures that are used throughout the program planning, budget formulation, budget execution, and accountability processes. This emphasis on program results will position us to make more informed budget and management decisions.

I will now briefly summarize our 1998 budget request by program.

### **Medical Programs**

#### **MEDICAL CARE**

This year, funding of the veteran's health system is based upon four elements: the appropriation, third party collections, sharing reimbursements and copayments, and a demonstration pilot for billing Medicare for higher income veterans. For 1998, VA's request provides an additional \$468 million -- a 2.8 percent increase -- over last year's enacted level. Essentially, the appropriation is straight-lined at the enacted level for 1997 with a slight adjustment, a decrease of \$68 million for C&P examinations to be transferred to the VBA and an adjustment for Franchise Fund supported financial services (an increase of \$14 million). VA is proposing that all third party medical collections and user fees be merged with the Medical Care appropriation. This will provide additional resources estimated to be \$591 million of which \$123 million is required to cover the cost of collections and \$468 million is available for veterans' healthcare services.

The Administration is also proposing legislation to authorize a demonstration pilot project for Medicare subvention which will allow VA to bill Medicare for higher level income veterans (Category C) and retain these funds. Although we do not estimate significant collections from this pilot in 1998, it is VA's goal to accomplish national implementation of Medicare billing before 2002. We estimate that by 2002 the combined collections from MCCR and Medicare could contribute \$1.4 billion in revenue to support veterans' healthcare. Important to note, we believe VA can provide high quality care for Medicare eligible veterans cheaper than the private sector so this will benefit the Trust Funds and VA. We believe this is a "win-win" situation.

The net result of these proposals for 1998 is the total availability of new funding of \$17.6 billion, which will support 187,317 FTE. We expect to provide care to 3.1 million unique patients, an increase of 135,000. The new funding level should support almost 891,000 inpatient admissions -- 560,000 acute care, 18,000 rehabilitation, 168,000 psychiatric care, 87,000 nursing home care, 28,000 subacute care, 30,000 residential care, and 33.2 million outpatient visits.

This year's funding request includes a proposal that will make a months' worth of funding (8.3 percent) available for two years. This will increase network directors ability to plan procurement of medical services, supplies and equipment more rationally and effectively than if they were constrained by the end of the fiscal year.

This budget makes an extraordinary commitment over the next five years to reduce per patient cost for healthcare by 30 percent, serve 20 percent more veterans, and increase the percent of the operating budget obtained from non-appropriated sources to 10 percent of all medical care funding by 2002.

VA's healthcare system is at a crossroads. VA is now implementing its most significant management restructuring since its inception. Creation of the Veterans Integrated Service Networks (VISNs) assures that scarce resources will be focused upon high priority patient healthcare. VA is also planning to move forward with the Veterans Equitable Resource Allocation System (VERA). This process guarantees that VA funding is distributed based on the eligible veteran population receiving care in a network rather than on historic funding patterns. With enactment of eligibility reform, Congress has given VA the tools to restructure the delivery of healthcare in a practical, logical and cost-effective manner reflecting the priorities of the Nation. Combined with VERA, eligibility reform will help VA serve all veterans better and more fairly.

It is essential that VA receive Congressional support to allow us to expand our non-appropriated funding sources to support veteran's healthcare. This includes

VA retaining third party insurance collections and copayments and, after successful pilot testing, VA billing Medicare for higher-income non-service-connected veterans. Allowing VA to retain all third party collection and user fees will provide the incentive to improve collection performance. In addition, providing the medical care program with access to these alternative revenue sources will allow VA to meet the five-year funding levels envisioned in this budget while meeting the healthcare needs of our Nation's veterans.

In this competitive health care environment, VA is becoming more customer-focused. We are measuring customer satisfaction and timeliness of services, while comparing community standards for quality measures to ensure that veterans receive high quality, compassionate care.

Decentralization of network management will continue to promote innovations and generate more cost-effective care. VA will continue its shift from a hospital-centered specialty-driven healthcare delivery system to an integrated network delivery system that is grounded in ambulatory and primary care. VA now has a Primary Care program in place at each of its medical centers.

### **MEDICAL AND PROSTHETIC RESEARCH**

For Medical and Prosthetic Research, a total of \$234 million and 2,953 FTE will support over 1,469 high priority research projects that will enhance the quality of health care to the veteran population and will maintain operations of research centers in the areas of Persian Gulf illnesses, diabetes, environmental hazards, and women's issues, as well as rehabilitation centers and Health Services Research and Development Service (HSR&D) field programs. In addition to the projects supported by VA appropriations, VA's staff will conduct over 5,200 projects supported by outside funding sources, such as the National Institute for Health (NIH) and private grants and studies.

The following are areas of focus within research: Persian Gulf Syndrome, Prostate Cancer, Outcomes Research, Nursing, Diabetes, Occupational and Environmental Hazards, R&D Program Oversight, Reorganize Cooperative Studies Program, R&D Program Research Project Portfolio, Revitalize the Career Development Program, and DoD Collaborative Research into Human Reproductive System Consequences from Traumatic Military Experience.

### **MEDICAL CARE COST RECOVERY**

A total of \$123 million and 2,295 FTE are provided for the administrative costs of the Medical Care Cost Recovery program in order to improve collections from

third parties, copayments, and other sources. With this proposal, any increase in performance will directly benefit veterans by providing additional resources for veterans healthcare. Collections in FY 1998 are estimated to increase by \$58 million over the 1997 level to \$591 million. Legislation is being proposed to merge this function with the Medical Care appropriation to allow VA to retain medical collections.

The Administration has proposed permanently extending several Omnibus Budget Reconciliation Act (OBRA) provisions, most of which would expire in 1998 under current law. They are: extending authority to recover copayments for outpatient medication and nursing home and hospital care; extending authority for certain income verification authority; and extending authority to recover third party insurance payments from service-connected veterans for nonservice-connected conditions.

### **Benefits Programs**

VA benefits programs provide assistance to veterans in recognition of their service to their country and the impact of that service on their quality of life. We provide compensation payments to veterans who suffered disabling illnesses or injuries during military service and to survivors of those who died from service-connected causes, pension payments to needy disabled wartime veterans and the needy survivors of wartime veterans, education and training assistance to help veterans readjust to civilian life, vocational rehabilitation and counseling assistance to help disabled veterans obtain employment, credit assistance to enable veterans and active duty personnel to purchase and retain homes, and life insurance. VA seeks to use strategic planning and performance measurement to improve benefits and services for veterans and their families and ensure the best use of taxpayer investments.

The Administration is requesting \$19.7 billion to support 1998 compensation payments to 2.3 million veterans and 307,000 survivors, and to support pension payments to 410,000 veterans and 304,000 survivors. This request reflects caseload and funds for benefits under P.L. 104-204 for the child of a Vietnam veteran born with spina bifida. Additionally, vocational training is also available to these children. This training may consist of vocationally-oriented services and assistance and may include a vocational education program at an institution of higher learning. Caseload increases in compensation also reflect the anticipated increases in accessions for Persian Gulf veterans as well as increases anticipated due to the addition of prostate cancer to the presumptive list for herbicide exposure in Vietnam and the extension of the Vietnam era for veterans who

served in the Republic of Vietnam.

Legislation is being proposed to amend title 38 to prohibit service connection of disabilities or deaths based solely on their being attributable, in whole or in part, to veterans' use of tobacco products during service. This proposal would not preclude establishing service connection based on a finding that a disease or injury became manifest or was aggravated during active service, or became manifest to the requisite degree of disability during an applicable statutory presumptive period. There are no costs or savings associated with this proposal.

We are also proposing in this budget a 2.7 percent cost-of-living adjustment (COLA), based on the projected change in the Consumer Price Index, to be paid to compensation beneficiaries, including spouses and children receiving Dependency and Indemnity (DIC). Proposed legislation is included which makes permanent a provision of current law that provides VA access to certain Internal Revenue Service data for determining eligibility for VA income based benefits. It also permanently limits the monthly pension benefit to \$90 for certain Medicaid-eligible veterans and surviving spouses receiving nursing home care. Also proposed is the requirement that all future compensation COLAs be rounded down to the next lowest full dollar amount.

This budget request also reflects a need for an additional \$753 million for the FY 1997 Compensation programs to fund the COLA that took effect December 1, 1996, and to fund increases in caseload and average benefit payments. Several factors account for the increase in projected average payments, including awards of original backlogged claims, which generated significant retroactive benefit payments, increases in the number of service-connected disabilities claimed and granted to veterans, and changes in program eligibility, such as additions to the list of conditions associated with exposure to herbicides.

An appropriation of \$1.37 billion is requested for the Readjustment Benefits program to provide education opportunities to veterans and eligible dependents and for various special assistance programs for disabled veterans. Education benefits will be provided for about 516,000 trainees in 1998 including 345,300 training under the Montgomery GI Bill. This request includes funds for the annual Consumer Price Index adjustment, estimated to be 2.9 percent effective October 1, 1997, for education programs.

This budget proposes legislation which will combine the separate Guaranty and Indemnity Fund, Loan Guaranty Fund and Direct Loan Fund into one new fund, effective October 1, 1997. Beginning in FY 1998 all income generated by the VA housing loan programs, except the Native American Pilot Program, would be deposited into the new fund along with appropriated monies. Under the credit



reform legislation, 13 distinct accounts were necessary for the old structure. The consolidation would merge the remaining eleven accounts into four accounts under a new fund entitled the *Veterans Housing Benefit Program Fund (VHBPF)*. No program or cost changes would result.

We are also proposing legislation to repeal certain restrictions on the collection of debts owed to the Government resulting from the foreclosure of VA housing loans. The budget also proposes to permanently extend VA's authority to (1) increase most housing loan fees by 0.75 percent and (2) charge a 3 percent fee for certain multi-use home loans. In addition, this budget proposes to permanently extend the resale loss provision in the formula that determines whether VA should acquire a foreclosed property or pay the default claim. Also included are proposals that would permanently extend the loan asset sale enhancement authority, so that VA can continue selling loans at a greater return, and increase the vendee funding fee to match the FHA fee structure on loans. VA's vendee loan program offers financing of VA real estate obtained as a result of property foreclosures and is available to both veteran and non-veteran purchasers.

### **GENERAL OPERATING EXPENSES**

A total of \$846.4 million is requested for the General Operating Expenses (GOE) appropriation in 1998. This funding level, combined with \$161.5 million of administrative costs associated with VA's credit programs (funded in the loan program accounts under credit reform provisions), \$11.3 million in reimbursements from the Compensation and Pensions account for costs associated with the implementation of the Omnibus Budget Reconciliation Act of 1990 as amended, and \$35.8 million from insurance funds' excess revenues, together with other reimbursable authority, will provide \$1.159 billion to support operations funded in the GOE account.

### **Veterans Benefits Administration**

The 1998 budget request for the Veterans Benefits Administration (VBA) is \$661 million which will support an average employment level of 11,400, which is 543 FTE below the 1997 level. This request, combined with \$157 million associated with credit reform funding, will result in an increase of \$55.6 million in discretionary appropriated funding over the 1997 level. Included in these totals are \$68 million transferred from the Medical Care account for the cost of medical examinations conducted with respect to veterans' claims for compensation or pension.

This budget reflects the continuation of VBA's Business Process Reengineering (BPR) for the C&P claims process which will significantly improve service to veterans. The BPR effort has examined C&P core business processes and addressed the entire claims processing environment. The present lengthy process will be reengineered to reduce internal handling and emphasize VBA interaction with veterans and their representatives. When completed in 2002, this reengineered process will allow most claims to be processed in less than 60 days and will reduce C&P original claim costs by over 20 percent in the same time frame.

This also reflects several on-going and new information technology initiatives that will support the needs of a reengineered environment. A major component of the VETSNET initiative is scheduled for completion in 1998. VETSNET will provide a user friendly interface and a standard payment and accounting system for the C&P benefits programs. Also included are funds for the Claims Processing System (CPS). CPS is an integrated, rules based data collection and case management instrument designed to assist field staff in the development of disability claims and tracking the current status of pending claims. This system will ensure greater accuracy and consistency during the development process.

This budget also includes funds to continue the development and installation of the Education Electronic Data Interchange (EDI)/Electronic Funds Transfer (EFT) project. We will use the EDI, an expert system, to automatically process education enrollment certifications where possible and the EFT to deliver the benefit to the claimant's financial institution. When fully implemented, it is expected that the EDI will automatically process up to 40 percent of all education claims, resulting in a 45 percent improvement in processing time.

### **General Administration**

A total of \$185.6 million is requested for the Office of the Secretary, five Assistant Secretaries and three VA-level staff offices. This request, combined with \$4.7 million associated with credit reform funding, will result in a total resource level of \$190.3 million.

The FY 1998 budget includes a request to add the fiscal operations of the Austin Finance Center to VA's Franchise Fund. The revolving fund will continue to be used to supply common administrative services on a reimbursable basis. All service activities under this revolving fund for 1998 will have annual billings of nearly \$82 million and 659 employees, who were transferred from their parent organizations.

The FY 1998 budget reflects the phased expansion of the Shared Service Center (SSC) to encompass additional VA employees and sites. The SSC will centralize payroll processing and personnel information. For FY 1998, the SSC is requesting \$23 million in reimbursement authority from other VA organizations. Average employment requested for the SSC is 252 FTE.

### **Board of Veterans' Appeals**

The Board of Veterans' Appeals will continue working to improve appellate decision-making timeliness in 1998. Response time for the Board will decrease from 549 days in 1997 to 538 days in 1998. The 1998 request is \$37.6 million for the Board in the General Administration total.

### **NATIONAL CEMETERY SYSTEM**

The National Cemetery System proposes a budget of \$84 million which will support 1,375 FTE. This represents an increase of \$7.3 million and 52 FTE over the 1997 level. The funding increase over last year's level is for the first full year of operations at the new Tahoma National Cemetery in the Seattle, Washington area; for the partial activation of three new national cemeteries near Chicago, IL; Dallas, TX; and Albany, NY; for the increasing workload and infrastructure needs at existing cemeteries; for equipment replacement; and for inflation.

### **OFFICE OF INSPECTOR GENERAL**

The FY 1998 request of \$31 million for the Inspector General will allow for continued audits of financial statements and a continuing focus on high pay-off areas that are most vulnerable to fraud, waste, and inefficiency.

### **CONSTRUCTION, MAJOR PROJECTS**

A total of \$79.5 million is requested for the Major Construction program. The Major Construction request would fund the final phase of a project to correct seismic deficiencies at the Memphis, TN VA Medical Center and expand VA's National Cemetery System. A new cemetery will be constructed near Cleveland, OH, and funds are requested to expand national cemeteries in Arizona and at Fort Sam Houston, TX. Additional funds are requested to remove asbestos from VA-owned buildings and to support advanced planning and design activities.

### **CONSTRUCTION, MINOR PROJECTS**

A total of \$166.3 million is requested for the FY 1998 Minor Construction program. The request includes \$140.5 million for Veterans Health Administration projects. Of this amount, \$42.4 million is targeted for the outpatient care and support category. This will enable VA to continue its commitment to provide primary and preventive care. Additionally, \$53.2 million will be earmarked for the inpatient care and support category. This category includes projects that improve the patient environment, such as providing private and semi-private bedrooms. A total of \$16 million is also included for the National Cemetery System. Funds in the amount of \$6.3 million are requested for the Veterans Benefits Administration. Staff Office and Emergency projects are provided \$3.5 million.

Legislation is being proposed to increase the appropriation limit on minor construction projects from \$3 million to \$5 million.

### **GRANTS FOR THE CONSTRUCTION OF STATE EXTENDED CARE FACILITIES**

The FY 1998 request of \$41 million for the Grants for the Construction of State Extended Care Facilities will provide funding to assist the States to establish new, or renovate existing, nursing homes and domiciliaries.

### **GRANTS FOR THE CONSTRUCTION OF STATE VETERANS CEMETERIES**

The FY 1998 request of \$10 million for the Grants for the Construction of State Veterans Cemeteries will provide funding to assist the States to establish, expand or improve State Veterans Cemeteries.

We propose legislation to increase the maximum Federal share of the costs of construction from 50 to 100 percent. This legislation would also permit Federal funding for up to 100 percent of the cost of initial equipment for cemetery operations. The State would remain responsible for paying all costs related to the operation of the state cemeteries, including the costs for subsequent equipment purchases.

### **Closing**

Mr. Chairman, the challenges before us are great but they do not exceed our dedication and commitment to ensuring the best possible care and service to our Nation's veterans. We owe our veterans the best we can provide. I look forward to working with you and the members of this Committee to meet these challenges. This completes my prepared statement. I will be pleased to answer any questions the Committee might have.

